

THE RHODESIAN JOURNAL OF ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), J. A. C. Girdlestone, M. L. Rule and P' J. Stanbridge

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Articles

The Essentials of Rhodesian Economic Policy

R. S. Walker

Mr. Walker, a prominent Rhodesian business man is Chairman of Rio Tinto (Rhodesia) Ltd., and the Netherlands Bank of Rhodesia Ltd.

THE ESSENTIALS OF RHODESIAN ECONOMIC POLICY

R. S. WALKER*

It is not my intention to attempt to formulate an economic policy for Rhodesia, my object is rather to attempt to explain the basic problems which I believe have to be faced by those who are responsible for Rhodesian economic policy. Also in one or two instances I wish to suggest certain lines which might be followed.

It is possible to make a case for two economic policies, one for the white people and one for the black people on the basis that the economic requirements and reactions of the two communities are sufficiently different to justify two different economic approaches. One-third of the black population lives and works in what are known as the white areas. I suggest that as far as these people are concerned, their economic activities are so inter-linked with the white men that together they constitute a common economic system. There is a **stronger** case for saying that the two-thirds of the black population who live in the Tribal Trust Lands should be regarded as a pure subsistence economy which will slowly change through the influence of the more developed multi-racial economy next door to it.

I suggest there is nothing peculiar or unusual about this. It is the classical situation when a rural economy converts to an industrial economy. In other words the industrial economy develops, takes hold and gradually pulls in the population from the less developed rural areas. This is the normal situation during any period of industrial revolution. So the first factor which we have to accept is that this country is in a process of industrial revolution similar to Europe 150 years ago.

It is interesting to note that no industrial revolution appears to have taken place against a background of democracy except perhaps in the United States. Certainly the original industrial revolutions of Europe did not take place against a democratic background nor the more modern industrial revolutions of Japan and Soviet Russia. I suspect that the demand for a democratic system springs from the process of industrialisation. This is even true in the case of the United States where industrialisation won the Civil War and through its victory created democracy of a different kind from the original democracy of the Declaration of Independence which was in reality an oligarchy.

This brings me to the question of Government responsibility for economic health. Since the last world war, if not since the great depression of 1930, governments of developed countries have been expected to assume responsibility for the economic prosperity or otherwise of the country concerned. Communist countries have accepted this responsibility as axiomatic since their inception. This responsibility is apparently now expected from every type of government in the world. A few moments ago when I talked of those responsible for the economic policy of this country I have no doubt that you all thought of the Minister of Finance, the Secretary to the Treasury, the Governor of the Reserve Bank. I wonder if any of you thought I was talking about those who controlled the thousand largest private enterprise undertakings in Rhodesia.

Whether this situation is advisable or not becomes almost academic

* Paper read to the Society.

because we all seem to have slipped into the habit of expecting governments to produce the environment in which we can work and prosper. If there is massive unemployment the government is to blame. If there is a drastic fall in the value of money the government is to blame. I wonder if the people of developed Western countries realise how much basic freedom they have surrendered in this regard.

Be that as it may we have to face facts. I suggest that in Rhodesia our aims and objects can nowadays be expressed very simply. We expect our government to attempt to raise the general wealth of the community in terms of goods and services available to it. Within this objective we are prepared to accept considerable disparity of wealth distribution as the price which has to be paid to retain and attract personnel of high ability and know-how. For various reasons not of an economic character we have a government in Rhodesia which depends for its political power on a minority of the population. In order to maintain this position it must exercise a high degree of control over the people of Rhodesia. This is a political fact out of which every attempt should be made to secure the maximum economic advantage.

To sum up at this stage, I have tried to make three basic points:

First of all Rhodesia is in a state of industrial revolution with a background of subsistence economy. In these circumstances unemployment is not the major economic concern which it is in developed countries.

Secondly, the economically educated part of the population has voluntarily surrendered its individual economic freedom in the interests of general stability. In other words, individuals have accepted that they cannot remove their savings from Rhodesia and that for the foreseeable future Rhodesia will have a managed economy.

Thirdly the aims and objects of our economy are to produce the greatest possible rate of increase in material development, productivity and efficiency.

Now against the background which I have described how do we achieve these aims and objects? This brings me to my next principle.

I believe that private enterprise and private capital should provide the development of industrial activity while government initiative and government capital should provide the development of the infrastructure. I would like to deal with the second aspect first.

In developing countries infrastructure is normally created largely through external development loans. The present international unpopularity of this country as demonstrated through sanctions, etc. denies this kind of development loan to Rhodesia. This can be a blessing in disguise if we are clever enough to use the situation to our advantage. Let us consider what we need:

Firstly, civil works such as roads, dams and bridges. The basic materials of these things are cement, steel and people. We produce everything we require for a major civil works programme in Rhodesia and we have the engineers to carry it out provided we are prepared to take risks with young somewhat inexperienced men such as a country might take during a war. It is true that we have not yet solved the problem of producing materials for first class road surfacing in this country but I understand we are fairly close to a solution of this problem.

Secondly, we require to develop our railways. We can produce heavier railway track in Rhodesia. We can also produce most of our own rolling stock with certain parts being imported and with the important exception of loco-

tives. Thus we can produce most of the necessary equipment for the development of our railways system.

Thirdly, we require greater reticulation and generating capacity of electric power. We cannot produce our major generating equipment in Rhodesia, but we can produce all the copper alloy conductors, the pylons, a great deal of the transformer capacity and switchgear equipment.

It seems therefore that the foreign currency element in the major development of our infrastructure is comparatively light. What then holds us back? It must be the economic results of a heavy development programme of this kind. Let me take a fairly simple example.

It is obviously in Rhodesia's interest that we should have massive dams on every river. Knowing as we do that the creation of a dam will normally lead to the development of high agricultural output. Everything to create dams is available in Rhodesia with the possible exception of replacement earth-moving equipment and even in this instance I would have thought most earth-moving equipment with the exception of prime movers could be manufactured here even although the cost would be somewhat higher than supply from abroad. So why aren't we in the middle of the biggest programme of dam building which the country has ever seen?

I will not insult a learned economic society like this by suggesting the problem is where is the money to come from. The problem must be the fear of the inflationary effect which would result from large payments to the consuming public for building dams which in turn would create a large demand for consumer goods in respect of which there would be too few goods in supply. I believe that in a managed economy the problem of inflation can be dealt with.

There are five major causes of inflation in the world today:

Firstly, major government over-spending on unproductive ventures. This is often necessitated by politics and very often by the democratic process of having to win votes. Perhaps the worst example is the attempt of the United States to fight the war in Vietnam without adopting war-time economic policies. Apart from a fairly heavy demand for defence expenditure I cannot see that the Rhodesian government is under any pressure to spend large sums of money on unproductive ventures. For example, I personally regard African education as a very productive venture indeed; properly used.

Secondly, governments now seem to regard it as permissible to use highly inflationary policies for electioneering purposes. For example the British government in 1964 resorted to a massive budgetary stimulus in order to attempt to win the election. They lost the election but the succeeding Labour Government did very little to rectify the crisis position which they inherited. The German Government has done the same thing before virtually every German election. I do not believe that in Rhodesia politics depends on economics and therefore the Government does not have to resort to budget stimuli in order to win elections.

Thirdly, there is a fear shown by governments in most developed countries to use restraining fiscal action when faced with an inflationary situation. This again is a fear of the voter. I do not believe that the Rhodesian Government suffers from this fear although the restraining fiscal action which they might be more inclined to take seems to lie in the direction of indirect rather than direct taxation. For a developing country this may be a good thing although at times it appears to place the heaviest burden on the poorer sections of the community.

Fourthly, most of the developed countries of the world are plagued by irrational and crippling demands for higher wages enforced by labour strike action. For various reasons in Rhodesia we are free from this source of inflation.

Fifthly, there is the inflation which we import through our imports becoming ever costlier. Some of this type of inflation is bound to leak through but in a country which exercises currency control and import control a reasonably close watch can be kept on the effects of imported inflation.

I would like at this point to go off at a tangent for a moment and deal with one difficulty which is peculiar to this country. A relatively high proportion of European labour is employed in the distributive industry. The distributive industry in turn is kept going by the variety of consumer goods available to it and this by its very nature involves the importation of a certain volume of consumer goods. Politically it is extremely difficult for a government whose political power rests mainly on a white electorate to take restrictive measures against a disproportionately large and expensive distributive industry. I am not saying that such action should be taken. This state of affairs is just a fact of life; a difficulty which we have to take into our calculations.

To get back to the main problem of inflation and the example I gave you of a massive dam building programme and the internal inflation which it might create. I believe that such a position can be controlled by various devices which are available to a managed economy. These include fiscal incentives towards saving by individuals. In other words, the more a man saves the less tax he pays. The control of credit for consumer goods. There may well be times when the Rhodesian Government has to restrain such open ended consumer credit schemes as no deposit no interest plus certain of the luxury types of hire purchase credits.

Next I want to deal with the problem of supplying the equipment which cannot be produced in this country and which is necessary for major infrastructure enlargement schemes. Here we have to follow two lines of action. Firstly to encourage our exports by every means within our power and secondly to ration and control the use of the foreign currency which our exports earn. Although sanctions have not been nearly as crippling as many people expected, undoubtedly they have made the furtherance of our export programmes more difficult and they have also made the problem of obtaining the capital equipment which we must have more costly and more complicated.

I believe in this instance that we should concentrate mainly on the export of basic materials such as minerals, meat and agricultural produce. At present we should be very hesitant about attempting to export manufactured goods on any scale. We have very few advantages in this direction and the advantages we have, such as cheap labour, may be of a very temporary nature.

Although it may sound like special pleading, top priority should go to the mining industry to enable it to increase its exports to the maximum extent possible. On the second question of allocation of foreign earnings top priority must go to capital equipment rather than to consumer goods. There will be plenty of incentive to manufacture consumer goods within this country.

There is one exception which I would like to make here and that is our trade relations with South Africa. The South African market is both adjacent and friendly. We should attempt to do as much of our shopping in South Africa as possible. I have no wish to suggest that we should become ultra puritanical in our way of life but after all when I stated at the beginning of this

talk that one of the basic facts was the surrender of economic freedom, I included the freedom to drink French wine and eat Danish cheese.

Now I want to pass over to the private sector which should take responsibility for the rapid increase in industrial activity, which the country must have if we are to meet the aims and objects which I postulated at the beginning of this address.

I believe the private sector should be allowed as much freedom to use its initiative as is possible. This freedom must include the carrot of financial reward and the retention of this regard by those who have earned it although the carrot must in the nature of a managed economy be limited as to its manoeuvrability. In other words there must for a long time be a control on how much money can be spent by individuals outside Rhodesia or taken out of Rhodesia.

There are two sections of the private sector which are a great cause of embarrassment to our economic position. I have dealt with one already. This is the inordinate size and complexity of our distribution system. The second one is of course the tobacco industry the slow diversification of which has been a long and costly exercise. Both these industries have important political implications and again this is a fact of life which the Rhodesian economist just has to accept.

But if it is necessary to slowly re-tailor our distributive and tobacco industries it is vital that we should protect our manufacturing industries which are the very essence of our industrial revolution and the main hope of creating a stable black prosperous middle class. A policy of protection for secondary industry or for that matter for primary industry has to be administered by civil servants and is an extremely difficult to manage. Although in many aspects this policy has been very successfully administered during recent years, it has suffered from one great weakness namely the reluctance to allow more than one or two manufacturers to undertake the same venture. There seems to be a philosophy abroad in the Ministry of Commerce and Industry of one industry one manufacturer.

If we are to cut down the import of consumer goods we must have diversity in the production of locally manufactured consumer goods. Secondly, it is impossible to obtain efficiency without direct competition between producers for existing internal markets. The Ministry of Commerce and Industry should hesitate many times before deciding that a would-be manufacturer should not be allowed to start operations because the article which he wishes to manufacture is already being made in Rhodesia. Don't think that I believe that the job of the Ministry of Commerce and Industry is simple—it is anything but, and there is always the shadow of the South African experience that the rapid and virtually uncontrolled development of secondary industry produces a greater demand for semi-manufactured imports than the demand for manufactured imports which it replaces.

It is also vital that adequate foreign exchange should be made available to the private sector for the import of capital equipment. There is a great and understandable danger here in that the development of the infrastructure is normally controlled, and should be controlled, by civil servants. Civil servants naturally get a substantial amount of satisfaction from the creation of new dams, new roads, new railways systems. They must not be allowed to use their influence in the corridors of power to grab an unjustifiable proportion of foreign exchange earnings for this purpose. I am convinced that the allocation of foreign exchange between the private sector and the public sector should be controlled

at an extremely high level—probably Cabinet.

The next matter with which I wish to deal concerning the private sector is the availability of internal finance for development purposes. In other words the creation of new capital. There are three main sources of finance for the expansion of private industry.

Firstly, ploughing back a proportion of profits. I would like to see industry encouraged to distribute up to half of its profits and to plough back the other half. If necessary this should be encouraged by fiscal means.

The second source is normal credit from the banking system. This is the tried and proven method which industry uses for starting up new ventures and for bridging finance operations. We are very fortunate in Rhodesia in having a highly developed banking system for our size. We should use it to the maximum. Not only is it geared to provide us with a sophisticated banking service tailored to the requirements of our industry but it is specially suited as an instrument of regulation within a managed economy of the type to which we have had to reconcile ourselves.

The third source of finance is investment by the public in shares in private industry. This form of participation in the economic and industrial development of a country is, in my opinion, an extremely healthy method of not only channelling savings into the most productive uses but also in giving an ever-increasing proportion of the public a real participation in the ownership of the economic life of the country. In this connection I have been very disappointed with the Rhodesian Stock Exchange. Although the creation of a Stock Exchange was a very fine achievement in itself there has been far too much emphasis placed on following the lessons which other stock exchanges have learned in other economies which differ greatly from Rhodesia's. We have to strike out for ourselves and in many instances make our own rules and regulations to suit our own circumstances.

For example the stock exchange will not consider listing a share unless capital with a par value of at least half a million dollars is offered to the public. This is much too great for many soundly run imaginative Rhodesian enterprises which in a small economy like this justify public participation and deserve a quotation on the Rhodesian Stock Exchange.

The Stock Exchange's job as I see it is to provide a market and to ensure that as much protection as possible is given to the shareholding public regarding the genuineness of the articles with which the market deals. Our stock market and general system of public participation in Rhodesian industry is still very small and very hesitant. It should be given every encouragement possible. The situation demands the maximum of flexibility rather than an increasing set of impeding rules and regulations.

If the Stock Exchange consider that a new share is being launched with insufficient information being made available or that the information which is available is misleading to potential investors, then they should have the courage to say "You will not receive a quotation for these reasons" not "You will not receive a quotation because you haven't complied with rule this and rule that".

Looking at the rather longer term scene there are two further factors which in my opinion are most important to Rhodesia. Firstly, we must never forget that our balance of payments position has been improved to a considerable extent since 1965 by the fact that we have not serviced or made repayment when due, in respect of our loans from Great Britain. In other words some day we have to negotiate a financial moratorium in this respect.

The second consideration which is allied somewhat to the point I have just made is that we must do everything possible to maintain our international reputation for first class financial and economic integrity. I remember, when I first started studying economics before the war, the reputation which another small country, Finland, had in these days because she had never asked for a moratorium on her reconstruction loans nor had she reneged. When Finland was attacked by Russia early in 1940 this reputation stood her in good stead in terms of world sympathy and support. Perhaps there is a lesson for us in Finland's example.

And now Mr. Chairman, to try and sum up a somewhat long and rambling address I believe that against a background of industrial revolution and a managed economy we have to try for the highest rate of development in both private industry and in the infrastructure of the country. To achieve these aims we should be brave in taking inflation risks and in running our managed economy as if it was a large business enterprise, (after all, General Motors is bigger than the economy of Rhodesia) bearing in mind all the time that we have to maintain the highest standards of international reputation. I suggest that there is a much higher degree of flexibility necessary in the control of private industry and also in the devices which private industry uses itself, such as the Rhodesian Stock Exchange. Above all we need to be adventurous and make certain that the sacrifices we have had to make of individual economic freedoms are made productive of the highest possible standard of achievement for the community as a whole.



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